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SUBJECT: IEA: FEBRUARY 19-21 IEA STANDING GROUP ON
LONG-TERM COOPERATION MEETING ON ACCELERATED
DEVELOPMENT OF ALTERNATIVE SUPPLIES

1. BEGIN SUMMARY. DURING LONG AND VIGOROUS DISCUSSION,
SLT UNDER US CHAIRMANSHIP, MADE MARKED PROGRESS TOWARD
DEVELOPMENT OF POSSIBLE COORDINATED SYSTEM FOR IEA CO-
OPERATION IN ACCELERATED DEVELOPMENT OF ALTERNATIVE
ENERGY. AS DISCUSSED BY SLT AND ANALYZED IN ITS REPORT
TO MARCH 6-7 GOVERNING BOARD, THIS COORDINATED SYSTEM
COULD CONSIST OF FIVE ELEMENTS:

A) GENERAL MEASURE OF COOPERATION TO STIMULATE
INVESTMENT IN CONVENTIONAL NUCLEAR AND FOSSIL
FUEL SOURCES THROUGH OFFERING COMMON LEVEL OF
PRICE PROTECTION AGAINST IMPORTED OIL;

B) COOPERATION IN PROVIDING SPECIFIC MEASURES OF
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ASSISTANCE TO INVESTMENT IN SYNTHETIC AND OTHER
HIGHER COST ENERGY ON A PROJECT BY PROJECT BASIS;

C) COOPERATION IN ENERGY R&D, INCLUDING JOINTLY
FINANCED PROJECTS;

D) GENERAL COMMITMENTS AMONG IEA COUNTRIES REGARD-
ING ACCESS TO SUPPLY AND MARKETS AND NON-DIS-
CRIMINATORY PRICING;

E) IEA REVIEW OF NATIONAL PROGRAMS TO DEVELOP NEW
ENERGY SUPPLIES.

2. A LARGE NUMBER OF DELEGATIONS (INCLUDING SEVERAL COUNTRIES WITH RELATIVELY LITTLE FOSSIL FUEL POTENTIAL) INDICATED TENTATIVE WILLINGNESS TO ACCEPT GENERAL MEASURES TO REDUCE DOWNSIDE RISK, PROVIDED IT WAS SET AT RELATIVELY LOW LEVEL AND PROVIDED THAT OVERALL COORDINATED SYSTEM OFFERED EQUITABLE SHARING OF COSTS AND BENEFITS. NO DELEGATION SAID IT COULD NOT UNDER ANY CIRCUMSTANCES SUPPORT GENERAL PRICE PROTECTION MEASURE. US PROPOSAL FOR CONSORTIUM APPROACH TO PRODUCTION OF SYNTHETIC AND OTHER HIGHER-COST FUELS RECEIVED GENERAL SUPPORT, ALTHOUGH SEVERAL DELEGATIONS SAID IT SHOULD BE COMBINED WITH OVERALL IEA FACILITY (E.G., INVESTMENT INSURANCE FACILITY) WHICH MIGHT OFFER GREATER GROUP SOLIDARITY. US R&D CONSORTIUM PROPOSAL WAS GREETED INITIALLY WITH SOME CONFUSION AS SOME DELEGATIONS WERE CONCERNED THAT IT WAS AIMED AT QUESTION OF R&D ORGANIZATION RATHER THAN ACTUAL IMPLEMENTATION OF JOINT PROJECTS. HOWEVER, AFTER CLARIFICATION BY US DELEGATION, R&D SUB GROUPS AND SLT AGREED TO RECOMMEND TO GOVERNING BOARD TO PROCEED TO DEVELOP OVERALL GUIDING PRINCIPLES FOR R&D COOPERATION, ALONG LINES OF US APPROACH AS WELL AS TO PREPARE FOR IMMEDIATE IMPLEMENTATION BY JUNE 30 JOINT PROJECTS IN THESE AREAS. CONCEPT OF IEA REVIEW OF NATIONAL PROGRAMS RECEIVED STRONG SUPPORT AND SLT AGREED TO PROCEED IMMEDIATELY TO REFINE DRAFT COMMON CRITERIA FOR REVIEW PROCESS.

END SUMMARY.

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3. GENERAL MEASURES TO PROVIDE A COMMON LEVEL OF PRICE PROTECTION FOR IEA INVESTMENT IN ENERGY -

A) THE USE OF A GENERALIZED DEFICIENCY PAYMENT SCHEME AS A GENERAL MEASURE OF COOPERATION RECEIVED NO SUPPORT. A NUMBER OF DELEGATIONS SPOKE STRONGLY AGAINST IT; NONE SUPPORTED IT.

B) THE PRICE FLOOR CONCEPT RECEIVED SUBSTANTIAL SUPPORT. SEVERAL DELEGATIONS, PARTICULARLY THE DANES AND GERMANS, CONDITIONED THEIR SUPPORT ON THE FLOOR BEING SET AT A "LOW LEVEL". GERMANS AND OTHERS SAID THAT FLOOR PRICE SHOULD BE SET ONLY HIGH ENOUGH TO PROVIDE PROTECTION FOR THE "MAJOR PART" OF CONVENTIONAL NUCLEAR AND FOSSIL FUEL. US DELEGATION REPLIED THAT WE DID NOT ENVISION PRICE PROTECTION AT A LEVEL TO ELIMINATE ALL RISK FOR INVESTMENT IN VERY HIGH COST CONVENTIONAL FOSSIL FUELS NOR IN SYNTHETICS AND EXOTICS. HOWEVER, IT SHOULD BE HIGH ENOUGH TO OFFER REAL STIMULUS TO INVESTMENT NEEDED TO SUPPORT IEA REDUCED DEPENDENCE COMMITMENT. IT COULD NOT, THEREFORE, BE SET AT TRIVIAL LEVEL. THERE WAS CONSENSUS THAT FLOOR PRICE

WOULD OFFER IMMEDIATE STIMULUS TO INVESTMENT; THAT IT WOULD SUPPORT THE IEA'S CONSERVATION OBJECTIVES, AND IT WOULD BE EVIDENCE OF IEA SOLIDARITY. SOME OF THE CONS EXPRESSED BY DELEGATIONS WERE THAT A FLOOR PRICE MIGHT CONSTITUTE PRICE GUARANTEE FOR OPEC SALES, THEREBY WEAKENING THE CONSUMERS' BARGAINING POSITION; THAT IT COULD CAUSE DISTORTIONS IN INTERNATIONAL TRADE; AND THAT IT MIGHT FAVOR THE ENERGY RICH COUNTRIES AND BE A BURDEN ON COUNTRIES' BALANCE OF PAYMENTS. THERE WAS AGREEMENT THAT THE SEVERITY OF THESE DISADVANTAGES DEPENDED HEAVILY ON THE LEVEL AT WHICH THE FLOOR PRICE, AND OTHER POSSIBLE MEASURES OF COMMON PRICE PROTECTION, WAS FIXED.

C) COMMON EXTERNAL TARIFF - THERE WAS GENERAL OPPOSITION TO THE COMMON EXTERNAL TARIFF APPROACH. ARGUMENTS ADVANCED AGAINST THIS MODEL INCLUDED: CONFLICTS WITH THE GATT; CREATION OF JURISDICTIONAL DIFFICULTIES IN THE EC; ITS EFFECT ON CONSERVATION AND CONFIDENTIAL

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ACCELERATED SUPPLY DEVELOPMENT PROGRAMS MIGHT NOT BE POSITIVE; AND IT MIGHT BE VIEWED AS CONFRONTATIONAL BY OPEC. ON THE POSITIVE SIDE, IT WAS SUGGESTED THAT AD VALOREM TARIFF MIGHT BE A STIMULUS TO PRODUCERS TO CUT PRICES. (SEVERAL DELEGATIONS POINTED OUT THAT A COMMON EXTERNAL TARIFF WOULD ONLY SEEM TO BE ACCEPTABLE IF IT HAD A TRIGGER POINT AND WAS OF A SLIDING NATURE -- IN WHICH CASE IT WOULD SEEM TO BE JUST AN APPROACH TO THE IMPLEMENTATION OF A FLOOR PRICE.)

4. SPECIFIC MEASURES -

A) THE US PROPOSED CONSORTIUM FOR SYNTHETIC FUELS RECEIVED A GENERALLY FAVORABLE REACTION. SEVERAL DELEGATIONS SUGGESTED A CHANGE IN THE NAME TO INDICATE THAT THE CONSORTIUM COULD BE A MODEL FOR COOPERATION IN DEVELOPING CONVENTIONAL AS WELL AS SYNTHETIC FUELS PRODUCTION. (THIS SUGGESTION REFLECTS THE VIEW OF SEVERAL DELEGATIONS THAT THE FLOOR PRICE SHOULD NOT BE SET AT A LEVEL HIGH ENOUGH TO COVER ALL CONVENTIONAL NUCLEAR AND FOSSIL FUELS.)

B) THE DANES FAILED TO GARNER STRONG SUPPORT FOR THEIR PROPOSAL FOR AN IEA INSURANCE FACILITY TO GUARANTEE CAPITAL INVESTMENTS IN APPROVED PROJECTS AND/OR TO GUARANTEE INVESTORS A FIXED RATE OF RETURN. CRITICISM WAS FOCUSED ON THE OPEN-ENDED FINANCIAL COMMITMENT IMPLIED BY THE GUARANTEE OF MINIMUM RATE OF RETURN. HOWEVER, SEVERAL DELEGATIONS EXPRESSED VIEWS THAT IEA REQUIRED SOME OVERALL MECHANISM FOR COOPERATION IN PROVIDING SPECIFIC INCENTIVES OR SUPPLEMENT TO US

CONSORTIUM APPROACH UNDER WHICH ONLY THOSE COUNTRIES ACTIVELY INVOLVED IN PROJECT WOULD ENGAGE IN COOPERATION. DANES, ITALIANS AND ONE OR TWO OTHERS ARGUED THAT SUCH OVERALL FACILITY OF SPECIFIC MEASURES WOULD BE ESSENTIAL BALANCE TO IEA ADOPTION OF GENERAL MEASURE OF PRICE PROTECTION. FRG ARGUED STRONGLY AGAINST CREATION OF ANY SUCH FACILITY UNTIL ACTUAL JOINT PROJECTS WERE IN VIEW, STRESSING DIFFICULTY OF COMMITTING GOVERNMENTS TO POSSIBLY OPEN-ENDED FINANCIAL OBLIGATIONS. (DANES UNDERTOOK PRIVATELY TO REMOVE ELEMENT OF GUARANTEED RATE CONFIDENTIAL

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OF RETURN FROM ITS SCHEME AND MAKE IT STRAIGHT INVESTMENT INSURANCE FACILITY WHICH MIGHT BE SELF-SUPPORTING.)

C) THE TURKISH PROPOSAL FOR AN IEA INVESTMENT FACILITY WAS SUBJECTED TO SAME TYPE CRITICISM AS ORIGINAL DANISH SCHEME. THIS PROPOSAL WOULD REQUIRE LIMITED BUT NEVERTHELESS SUBSTANTIAL LOAN GUARANTEES BY NATIONAL GOVERNMENTS FOR ENERGY PROJECTS IN VARIOUS IEA COUNTRIES.

5. R AND D. MODALITIES FOR R & D COOPERATION WERE DISCUSSED IN A JOINT SESSION OF THE SLT AND R & D SUB-GROUP. MANY DELEGATIONS REACTED NEGATIVELY TO THE US PROPOSAL FOR AN R & D CONSORTIUM, WHICH THEY VIEWED AS AN ATTEMPT TO ESTABLISH A NEW ORGANIZATIONAL STRUCTURE IN ADVANCE OF DEVELOPMENT OF CONCRETE PROJECTS. THE US DELEGATION STRESSED THAT THIS WAS NOT OUR INTENTION AND THAT IN FACT WE NEEDED A SET OF GUIDING PRINCIPLES FOR THE IEA'S R & D WORK IN ORDER TO STIMULATE THE UNDERTAKING OF JOINT PROJECTS AND DEMONSTRATE, IN A POLITICAL WAY, IEA SOLIDARITY. AFTER FURTHER DISCUSSION THE R & D SUB-GROUP, WITH SLT CONCURRENCE AGREED TO RECOMMEND TO THE GOVERNING BOARD:

-- THAT IMMEDIATE COOPERATION BEGIN ON LIMITED PROJECTS IN THE AREAS OF 1) UTILIZATION OF WASTE HEAT, 2) USE OF MUNICIPAL AND INDUSTRIAL WASTE, AND 3) GENERATION OF HYDROGEN;

-- THAT PRIORITY BE GIVEN TO MAJOR PROJECTS IN COAL TECHNOLOGY, NUCLEAR SAFETY, AND RADIOACTIVE WASTE TREATMENT AND THAT THE R & D SUB-GROUP BE CHARGED TO COME UP WITH AN ACTUAL PROJECT AGREEMENT IN THESE AREAS BY JUNE 30;

-- THAT THE SUB-GROUP BE INSTRUCTED TO PROPOSE A SET OF GUIDING PRINCIPLES ALONG LINES OF US CONSORTIUM PROPOSAL FOR REVIEW BY THE GOVERNING BOARD BY JUNE 30.

6. POSSIBLE COMMITMENTS AMONG IEA COUNTRIES - THE DANES,
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JAPANESE, AND ITALIANS PUSHED HARDEST FOR ESTABLISHING FIRM TARGETS FOR FUTURE ENERGY DEVELOPMENT. THEY INITIALLY SOUGHT TO COUPLE ACCEPTANCE OF GENERAL MEASURES, WITH SOME TYPE OF IEA-ESTABLISHED TARGETS THAT WOULD GO BEYOND COLLATION OF THE GOALS OF VARIOUS NATIONAL ENERGY PROGRAMS. THE US, BRITISH AND CANADIANS ARGUED THAT SINCE TARGETS BASED ON LONG-TERM FORECASTS WOULD BE NO MORE THAN EDUCATED GUESSES, COUNTRIES COULD NOT BIND THEMSELVES TO MEET SUCH TARGETS. THE AD HOC GROUP ON ACCELERATED DEVELOPMENT WAS REQUESTED, INTER ALIA, TO EXAMINE THE EXTENT TO WHICH TARGETS MAY BE ESTABLISHED FOR NATIONAL PROGRAMS AND/OR FOR THE IEA AS A WHOLE.

THE DANES, AGAIN WITH JAPANESE AND ITALIAN SUPPORT, HELD THAT ANY IEA AGREEMENT ON GENERAL MEASURES ALSO HAD TO BE ACCOMPANIED BY COMMITMENTS AMONG IEA COUNTRIES REGARDING ACCESS TO SUPPLIES AND TO NON-DISCRIMINATORY PRICING. AS CONVEYED TO US EARLIER, THE CANADIANS STRONGLY EMPHASIZED THEIR COUNTRY'S LEGAL CONSTRAINTS AGAINST SUCH COMMITMENTS. THE BRITISH, DUTCH, AND NORWEGIANS LET THE CANADIANS CARRY THE BALL ON THIS ISSUE, BUT THEY PIPED IN WITH SUPPORT WHEN NEEDED. US DELEGATION STATED WE PROPOSED TO EXPLORE POSSIBILITY OF UNDERSTANDINGS AMONG IEA COUNTRIES ON THESE ISSUES, BUT CAUTIONED THEY WOULD REQUIRE VERY DETAILED STUDY.

7. REVIEWS OF NATIONAL PROGRAMS - THE SLT SUPPORTED THE PROPOSAL FOR AN ANNUAL REVIEW OF ACCELERATED DEVELOPMENT PLANS, GOALS, AND ACCOMPLISHMENTS. IT REVIEWED THE CRITERIA DRAFTED BY THE AD HOC GROUP BUT REQUESTED THAT MORE WORK BE DONE BEFORE THE CRITERIA CAN BE ADOPTED. THERE WAS NOT MUCH SUPPORT FOR ESTABLISHING A BASE PERIOD (E.G. 1968-73) FOR PURPOSES OF MEASURING ACHIEVEMENTS IN ACCELERATED SUPPLY DEVELOPMENT. THE AD HOC GROUP ASKED TO TRY TO ARRIVE AT AN ACCEPTABLE DEFINITION OF "ACCELERATED DEVELOPMENT".

8. EQUILIBRIUM PRICE - ALL THE DELEGATIONS EXCEPT THE JAPANESE TOOK THE POSITION THAT THE EQUILIBRIUM PRICE AND FLOOR PRICE SHOULD BE SET AT DIFFERENT LEVELS
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AND FOR DIFFERENT TIME PERIODS. FRG AND OTHERS NOTED THAT EQUILIBRIUM PRICE, IF ONE COULD BE AGREED TO WITH PRODUCERS, WOULD ALMOST CERTAINLY BE A HIGHER LEVEL THAN THAT PRICE AT WHICH IEA WOULD AGREE TO PROTECT

INVESTORS AGAINST COMPETITION FROM IMPORTED OIL. THE EQUILIBRIUM PRICE COULD BE ESTABLISHED FOR A LIMITED PERIOD AND BE SUBJECT TO REVIEW, WHILE THE FLOOR PRICE SHOULD BE OF SUFFICIENT DURATION TO PERMIT REALIZATION OF THE RETURN ON CAPITAL INVESTMENT. IT WAS GENERALLY AGREED THAT THE FLOOR PRICE WOULD BE REGARDED AS ONLY ONE POINT OF REFERENCE FOR ESTABLISHING THE EQUILIBRIUM PRICE. OTHER SUGGESTED REFERENCE POINTS INCLUDED NEED TO REDUCE OPEC SUPPLIES TO ZERO OVER THE LONG-TERM AND NEED TO MINIMIZE ECONOMIC DISTORTIONS THAT MIGHT ARISE WITH INVESTMENTS IN MORE EXPENSIVE ENERGY SOURCES.

9. TIMING - THE SLT AGREED THE GOVERNING BOARD SHOULD DISCUSS THE QUESTION OF THE PROPER TIMING FOR ACTUALLY FIXING A SPECIFIC COMMON LEVEL OF PRICE PROTECTION. SOME DELEGATIONS INCLUDING THE US ARGUED FOR AGREEMENT ON A RANGE WITHIN WHICH THE COMMON LEVEL WOULD BE SET, PRIOR TO BEGINNING THE DIALOGUE WITH PRODUCERS.

10. BURDENSARING - DURING EXTENSIVE DISCUSSION, IT WAS GENERALLY AGREED THAT THE ISSUE OF EQUITY SHOULD BE CONSIDERED IN TERMS OF THE SYSTEM AS A WHOLE AND NOT JUST IN TERMS OF INDIVIDUAL ELEMENTS OF THAT SYSTEM.

SOMEWHAT BEGRUDGINGLY, THE "ENERGY-POOR" COUNTRIES RECOGNIZED THAT THEY WOULD BENEFIT FROM ACCELERATED PRODUCTION EFFORTS IF THE WORLD'S SUPPLY/DEMAND BALANCE FOR OIL WAS CHANGED. HOWEVER, THE DANES, JAPANESE, ITALIANS, AND, TO SOME EXTENT, THE TURKS STRESSED REPEATEDLY THAT THE "ENERGY-RICH" COUNTRIES, RECEIVED THE PREPONDERANCE OF BENEFITS FROM ACCELERATED DEVELOPMENT. THE US, CANADIANS, AND TO A LESSER DEGREE, THE BRITISH EMPHASIZED THAT THOSE COUNTRIES HAVING ENERGY RESOURCES WOULD HAVE TO BEAR MOST OF THE LARGE CAPITAL COSTS REQUIRED TO DEVELOP THIS ENERGY; THEY MUST BE ASSURED THAT THIS INVESTMENT WILL NOT BE JEOPARDIZED BY OPEC PRICING POLICIES. THE US REPEATEDLY POINTED
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OUT THAT A COMMON LEVEL OF IEA PRICE PROTECTION WOULD NOT PREVENT "ENERGY - POOR" COUNTRIES FROM REAPING FISCAL AND BALANCE OF PAYMENTS ADVANTAGES SHOULD WORLD PRICES FALL BELOW THE FLOOR PRICE. ALL AGREED THAT THIS QUESTION OF EQUITY WOULD DEPEND IN LARGE PART ON THE LEVEL AT WHICH THE COMMON PRICE PROTECTION WAS FIXED.

THE DANES AND ITALIANS IN PARTICULAR STRESSED THAT ANOTHER INGREDIENT OF EQUITY WAS ASSURANCE THAT THE COORDINATED SYSTEM WOULD ACTUALLY STIMULATE NEW SUPPLIES. (THIS WAS ONE OF THE JUSTIFICATIONS THE DANES CITED TO SUPPORT THEIR INSISTANCE ON AGREED IEA TARGETS; SEE PARA 6).

11. GENERAL COMMENTS ON COUNTRY POSITIONS: ALL DELEGATIONS STRESSED THEY WERE NOT AUTHORIZED TO DO MORE THAN EXAMINE PROS AND CONS OF POSSIBLE ELEMENTS OF COOPERATION. HOWEVER, THERE WAS STRONG SUPPORT FOR THE CONCEPT OF COMBINING GENERAL AND SPECIFIC MEASURES OF COOPERATION, ALTHOUGH ITALY, JAPAN AND TURKEY INDICATED THEY WERE "INCLINED TOWARD RELIANCE ON SPECIFIC MEASURES". BUT JAPANESE AND ITALIANS BOTH STRESSED PRIMARILY THAT THEY CURRENTLY HAVE CONCEPT ON COMMON MEASURE OF PRICE PROTECTION UNDER ACTIVE REVIEW IN THEIR CAPITALS. THE EC COMMISSION INDICATED SUPPORT FOR THE COMBINED APPROACH, ALTHOUGH STRESSED NEED FOR HEAVY RELIANCE ON SPECIFIC MEASURES. THE FRG SUPPORTED A COMMON LEVEL OF PRICE PROTECTION (TENTATIVELY MENTIONING A FIGURE IN THE "RANGE OF \$5.00), IN COMBINATION WITH OTHER MEASURES. SO DID THE DANES, ASSUMING THEY CAN GET SATISFACTION ON ACCESS TO SUPPLY AND NON-DISCRIMINATORY PRICING. THE UK DELEGATION WAS RESERVED BUT HELPFUL. CANADIAN DELEGATION INDICATED GENERAL WILLINGNESS TO CONSIDER COORDINATED SYSTEM AS DISCUSSED BY SLT BUT STRESSED THAT QUESTION OF COMMITMENTS TO ACCESS TO SUPPLY WOULD POSE SERIOUS LEGAL AND POLITICAL PROBLEMS FOR THEIR GOVERNMENT. KISSINGER

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